

5 April 2019

Financial Services | Exchanges

Singapore Exchange (SGX SP)

Buy (Maintained)

Derivatives Still In Driver's Seat; Keep BUY

Target Price (Return) SGD8.10 (+9%)
 Price: SGD7.42
 Market Cap: USD5,860m
 Avg Daily Turnover (SGD/USD) 22.4m/16.6m

- **Still a BUY with lower SGD8.10 TP from SGD8.20, pegged to 23x FY20F (Jun) P/E, offering 9% upside plus 4% FY19F yield.** 3QFY19 securities average daily value (SADV) declined 31% YoY to SGD0.97bn. We lowered our FY19F SADV to SGD1.04bn from SGD1.07bn, which is slightly above the 9MFY19 SADV of SGD0.99bn. Our FY20F SADV assumption has been lowered to SGD1.12bn from SGD1.29bn – we expect global stabilisation to drive FY20F SADV higher YoY.
- **Derivatives volume numbers have been robust recently**, as seen in the China A50 Index Futures' Jan-Feb 2019 contracts traded that rose 8% YoY. We believe market volatility will keep derivatives volume firm, though we have conservatively assumed FY19F derivatives average daily contract (DADC) of 924,000 vs 8MFY19's 941,000 although still higher than FY18's 795,000. We have also assumed lower YoY FY20F DADC on expectations of slower China A50 Index Futures trading with HKEX's expected launch of the MSCI China A Index Futures.
- **Awaiting more details on NSE and SGX agreement.** On 1 Apr, a Bloomberg newswire report highlighted that the National Stock Exchange of India (NSE) and SGX have reached a finalised agreement to trade Nifty products – this reduces uncertainty, in our view. We are awaiting more details from SGX, which should provide some feel on the earnings impact.
- **Minor fine-tuning of our FY19F profit estimate, with more significant cuts to our FY20F and FY21F net profit.** We lowered our FY19F net profit by 0.2% as we cut our FY19F SADV assumption to SGD1.04bn from SGD1.07bn, but largely offset by our higher FY19F DADC assumption of 924,000 from 897,000. Our FY20F-21F net profit forecasts are cut by 8% and 6% on lower SADV assumptions.
- **Respectable dividend yield.** SGX is on track to hit our target SGD0.31 DPS for FY19F, which translates to a yield of 4% - this is higher than the Singapore sovereign 10-year yield of 2.08%.
- **Strong balance sheet.** SGX remains in a net cash position, with a monopoly over trading of Singapore-listed equities.
- **Limited downside even if SADV is lower than our base case.** Our TP of SGD8.10 is pegged to 23x FY20F EPS, ie the 4-year mean. Hypothetically, if FY20F SADV was 20% lower than our base case at SGD0.90bn, SGX's fair value would be SGD7.18 (Figure 2), close to the current traded price.
- **Key risks** are global economic fluctuations and geopolitical developments.

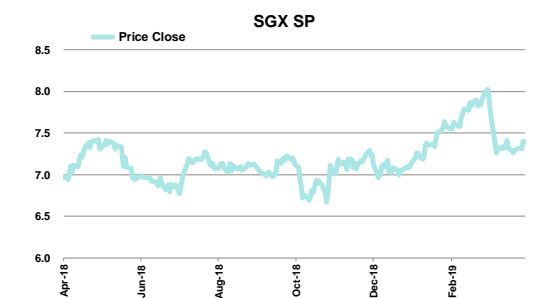
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.5	(7.5)	2.9	1.1	3.8
Relative	(4.5)	(9.5)	(5.5)	(1.5)	4.5
52-wk Price low/high (SGD)	6.72 – 8.05				



Source: Bloomberg

Forecasts and Valuation	Jun-17	Jun-18	Jun-19F	Jun-20F	Jun-21F
Total turnover (SGDm)	800.8	844.7	851.4	865.8	904.3
Recurring net profit (SGDm)	339.7	363.2	365.0	375.0	395.7
Recurring net profit gr (%)	(2.7)	6.9	0.5	2.7	5.5
Recurring P/E (x)	23.4	21.9	21.8	21.2	20.1
P/B (x)	7.7	7.2	7.0	6.8	6.6
P/CF (x)	21.0	18.6	22.0	21.4	20.3
Dividend Yield (%)	3.8	4.0	4.1	4.3	4.5
EV/EBITDA (x)	15.5	14.6	14.5	14.3	13.7
Return on average equity (%)	33.6	34.1	32.7	32.6	33.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage	N.A	N.A	N.A	N.A	N.A

Source: Company data, RHB

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Figure 1: SGX's annual P&L and assumptions

YE : Jun (SGDm)	FY17	FY18	FY19F	FY20F	FY21F
Turnover	800.8	844.7	851.4	865.8	904.3
EBITDA	459.5	485.7	492.8	502.5	525.8
Depreciation	(57.7)	(60.8)	(63.0)	(64.0)	(63.0)
EBIT	401.8	424.9	429.8	438.5	462.8
Pre-tax Profit	408.9	437.5	442.4	451.8	476.8
Tax	(69.2)	(74.3)	(77.4)	(76.8)	(81.1)
Net Profit	339.7	363.2	365.0	375.0	395.7
Growth (%)					
Turnover	(2.1)	5.5	0.8	1.7	4.4
EBITDA	(2.0)	5.7	1.4	2.0	4.6
Pre-tax Profit	(1.7)	7.0	1.1	2.1	5.5
Profitability (%)					
EBITDA Margin	57.4	57.5	57.9	58.0	58.1
Pre-tax Margin	51.1	51.8	52.0	52.2	52.7
Net Margin	42.4	43.0	42.9	43.3	43.8
Future & option turnover (units)(m)	165.2	198.0	231.0	222.0	224.0
Derivatives avg daily contract (k)	659	795	924	888	889
Stock-market turnover (SGD bn)	280.7	314.0	260.0	280.0	310.0
Securities average daily value (SGD bn)	1.12	1.26	1.04	1.12	1.23
Equities market velocity (%)	39%	39%	39%	39%	39%

Source: Company data, RHB

Figure 2: SGX's earnings sensitivity to stock market turnover

	Base case	20	40	60	(20)	(40)
Stkmkt turnover % rise						
Securities ADV (SGDbn)	1.12	1.34	1.57	1.79	0.90	0.67
Revenue (SGDm)	865.8	920.9	976.0	1,031.0	810.8	755.7
Net profit (SGDm)	375.0	417.7	460.4	503.1	332.3	289.6
EPS (SGD)	35.0	39.0	43.0	47.0	31.1	27.1
Target PE rating	23	23	23	23	23	23
Target Price (SGD)	8.10	9.02	9.94	10.86	7.18	6.25

Source: RHB

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